



**Umzumbe**  
MUNICIPALITY

**Annual Financial Statements  
for the year ended 30 June 2017**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## General Information

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<b>Nature of business and principal activities</b>	Providing services to the community of Umzumbe
<b>Executive Committee</b>	Councillor Ngcobo SR (Mayor) Councillor Zungu MPL (Deputy Mayor) Councillor Shozi MP (Speaker) Councillor Luthuli MZ (Chief Whip) Councillor Luthuli BB (Exco Member) Councillor Mdletshe MS (Exco Member) Councillor Mwese NY (Exco Member) Councillor Zamisa P (Exco Member)
<b>Councillors</b>	Councillor Cele LS Councillor Cele SR Councillor Cele ZC Councillor Dlamini DDB Councillor Dlamini EB Councillor Duma LN Councillor Habile PL Councillor Hlophe WN Councillor Jeza S Councillor Khanyile RSW Councillor Luthuli OT Councillor Madwe B Councillor Mbambo OJ Councillor Mbayi TM Councillor Mfeka BT Councillor Mfecane MM Councillor Mkhize R Councillor Msani ZZ Councillor Myende TC Councillor Mtambo JP Councillor Ndimande HZ Councillor Nzimande SG Councillor Radebe TJ Councillor Shezi CL Councillor Shozi DZ Councillor Sithole Z Councillor Sikhosana B Councillor Xaba NE Councillor Zama SZ Councillor Zamisa P Councillor Zindela AE
<b>Accounting Officer</b>	Ms NC Mgijima
<b>Registered office</b>	Sipofu Road Mathulini Tribal Authority 4220

# **Umzumbe Local Municipality**

Annual Financial Statements for the year ended 30 June 2017

## **General Information**

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<b>Business address</b>	Sipofu Road Mathulini Tribal Authority 4220 Web: <a href="http://www.umzumbe.gov.za">www.umzumbe.gov.za</a>
<b>Postal address</b>	P.O. Box 561 Hibberdene 4220
<b>Bankers</b>	ABSA Bank Limited
<b>Auditors</b>	Auditor General South Africa Registered Auditors

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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VAT	Value Added Tax
SDL	Skills Development Levy
GRAP	Generally Recognised Accounting Practice
GIS	Geographical Information Systems
COGTA	Department of Cooperative Governance and Traditional Affairs
IAS	International Accounting Standards
DORA	Division of Revenue Act
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
MSIG	Municipal Systems Improvement Grant

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's Chief Financial Officer.

The annual financial statements set out on pages 5 to 38, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by the accounting officer:



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Ms NC Mgijima  
Municipal Manager

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Current Assets</b>			
Receivables from exchange transactions	4	343,690	86,701
VAT receivable	5	8,573,238	20,898,485
Trade and other receivables from non-exchange transactions	6	9,299,136	6,812,432
Cash and Cash Equivalents	7	169,217,390	122,840,291
		<b>187,433,454</b>	<b>150,637,909</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2	319,159,021	303,213,738
Intangible Assets	3	1,119,914	584,597
		<b>320,278,935</b>	<b>303,798,335</b>
<b>Total Assets</b>		<b>507,712,389</b>	<b>454,436,244</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	10	37,603	21,186
Trade and Other Payables	11	14,126,450	15,825,440
Unspent Conditional Grants and Receipts	8	5,412,742	5,412,389
Provisions	9	3,924,613	3,495,890
		<b>23,501,408</b>	<b>24,754,905</b>
<b>Non-Current Liabilities</b>			
Provisions	9	796,000	735,000
<b>Total Liabilities</b>		<b>24,297,408</b>	<b>25,489,905</b>
<b>Net Assets</b>		<b>483,414,981</b>	<b>428,946,339</b>
Accumulated Surplus		483,414,981	428,946,339

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
Other income	15	702,919	578,594
Interest received - investment		11,451,089	8,269,793
Property rates	12	5,760,685	5,790,485
Government grants & subsidies	13	177,052,909	204,652,466
<b>Total revenue</b>		<b>194,967,602</b>	<b>219,291,338</b>
<b>Expenditure</b>			
Employee Related Costs	17	39,454,327	36,427,048
Remuneration of Councillors	18	13,908,035	13,688,879
Depreciation Amortisation and Impairment	20	24,136,298	22,658,468
Finance costs		82,000	65,000
Debt Impairment	19	448,791	519,236
Repairs and Maintenance		4,998,750	8,478,260
General Expenses	16	54,081,772	60,471,910
<b>Total expenditure</b>		<b>137,109,973</b>	<b>142,308,801</b>
<b>Operating surplus</b>			
Loss on disposal of assets		(3,388,987)	(100,573)
<b>Surplus for the year</b>		<b>54,468,642</b>	<b>76,881,964</b>

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
<b>Balance at 01 July 2015</b>	<b>351,092,443</b>	<b>351,092,443</b>
Correction of Errors	971,932	971,932
Surplus for the year	76,881,964	76,881,964
Total changes	77,853,896	77,853,896
<b>Restated* Balance at 01 July 2016</b>	<b>428,946,339</b>	<b>428,946,339</b>
Changes in net assets		
Surplus for the year	54,468,642	54,468,642
Total changes	54,468,642	54,468,642
<b>Balance at 30 June 2017</b>	<b>483,414,981</b>	<b>483,414,981</b>

Note(s)

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\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from Customers		3,501,742	3,635,007
Grants		177,065,262	201,572,550
Interest income		11,421,924	8,269,793
		<b>191,988,928</b>	<b>213,477,350</b>
<b>Payments</b>			
Finance costs		(82,000)	(65,000)
Cash Paid to Suppliers and Employees		(101,523,946)	(127,147,592)
		<b>(101,605,946)</b>	<b>(127,212,592)</b>
<b>Net cash flows from operating activities</b>	<b>22</b>	<b>90,382,982</b>	<b>86,264,758</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(43,589,540)	(73,563,696)
Proceeds from sale of property, plant and equipment	2	325,935	-
Purchase of other intangible assets	3	(742,278)	(274,084)
<b>Net cash flows from investing activities</b>		<b>(44,005,883)</b>	<b>(73,837,780)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>46,377,099</b>	<b>12,426,978</b>
Cash and cash equivalents at the beginning of the year		122,840,291	110,413,313
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>169,217,390</b>	<b>122,840,291</b>

\* See Note

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Other income	21,937,457	1,105,902	<b>23,043,359</b>	702,919	<b>(22,340,440)</b>	
Interest Earned - External Investments	8,300,000	300,000	<b>8,600,000</b>	11,451,089	<b>2,851,089</b>	
<b>Total revenue from exchange transactions</b>	<b>30,237,457</b>	<b>1,405,902</b>	<b>31,643,359</b>	<b>12,154,008</b>	<b>(19,489,351)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	4,157,557	-	<b>4,157,557</b>	5,760,685	<b>1,603,128</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	174,018,000	8,412,389	<b>182,430,389</b>	177,052,909	<b>(5,377,480)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>178,175,557</b>	<b>8,412,389</b>	<b>186,587,946</b>	<b>182,813,594</b>	<b>(3,774,352)</b>	
<b>Total revenue</b>	<b>208,413,014</b>	<b>9,818,291</b>	<b>218,231,305</b>	<b>194,967,602</b>	<b>(23,263,703)</b>	
<b>Expenditure</b>						
Salary Related Costs	(61,076,308)	-	<b>(61,076,308)</b>	(53,362,362)	<b>7,713,946</b>	
Repairs and Maintenance	(6,180,000)	(1,176,401)	<b>(7,356,401)</b>	(4,998,750)	<b>2,357,651</b>	
General and Other Expenses	(84,990,807)	(4,736,456)	<b>(89,727,263)</b>	(78,748,861)	<b>10,978,402</b>	
<b>Total expenditure</b>	<b>(152,247,115)</b>	<b>(5,912,857)</b>	<b>(158,159,972)</b>	<b>(137,109,973)</b>	<b>21,049,999</b>	
<b>Operating surplus</b>	<b>56,165,899</b>	<b>3,905,434</b>	<b>60,071,333</b>	<b>57,857,629</b>	<b>(2,213,704)</b>	
Loss on disposal of assets	-	-	-	(3,388,987)	<b>(3,388,987)</b>	
<b>Surplus / (Deficit)</b>	<b>56,165,899</b>	<b>3,905,434</b>	<b>60,071,333</b>	<b>54,468,642</b>	<b>(5,602,691)</b>	
<b>Capital</b>						
Capital Expenditure	(56,165,899)	(3,905,434)	<b>(60,071,333)</b>	(44,331,818)	<b>15,739,515</b>	

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
Net cash (from) from operating activities	152,247,115	5,912,857	<b>158,159,972</b>	90,382,982	<b>(67,776,990)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(56,165,899)	(3,905,434)	<b>(60,071,333)</b>	(44,005,883)	<b>16,065,450</b>	
Net increase/(decrease) in cash and cash equivalents	96,081,216	2,007,423	<b>98,088,639</b>	46,377,099	<b>(51,711,540)</b>	
Cash and cash equivalents at the beginning of the year	-	-	-	122,840,291	<b>122,840,291</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>96,081,216</b>	<b>2,007,423</b>	<b>98,088,639</b>	<b>169,217,390</b>	<b>71,128,751</b>	

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

GRAP - 31 Intangible Assets

GRAP - 14 Events after the reporting date

GRAP - 24 Presentation of Budget Information in Financial Statements

GRAP - 23 Revenue from Non-exchange Transactions

GRAP - 25 Employee Benefits

GRAP - 104 Financial Instruments

#### **The following GRAP standards have been issued but are not yet effective**

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

GRAP 20 - Related party disclosures

GRAP 32 - Service concession agreements : Grantor

GRAP 34 - Separate Financial Statements

GRAP 35 - Consolidated Financial Statements

GRAP 36 - Investments in Associates and Joint Ventures

GRAP 37 - Joint Arrangements

GRAP 38 - Disclosure of Interests in Other Entities

GRAP 108 - Statutory Receivables

GRAP 109 - Accounting by Principals and Agents

GRAP 110 - Living and Non-living Resources

### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.2 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition. Where the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Computer Equipment	Straight line	05-10
Solid Waste Disposal	Straight line	05-55
Dwellings	Straight line	05-30
Electricity	Straight line	05-80
Furniture & Office Equipment	Straight line	03-10
Non Residential Dwellings	Straight line	10-30
Transport Assets	Straight line	04-20
Machinery & Equipment	Straight line	02-20
Roads	Straight line	03-100

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.2 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 2).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 2).

### Assets Under Construction

Incomplete construction work is stated at historical cost. Depreciation only commence when the asset is available for use.

### 1.3 Intangible Assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.3 Intangible Assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible Assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Average useful life
Computer software, other	Straight line	3-5

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

### 1.4 Financial Instruments

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit

#### Payables from exchange transactions

Trade payables are measured at fair value.

#### Cash and Cash Equivalents

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.4 Financial Instruments (continued)

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Receivables from non exchange transactions

Trade receivables from non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

### 1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Employee Benefits

#### Short-Term Employee Benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined Contribution Plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan.

As the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

#### Long Service Awards

The municipality has an obligation to provide Long Service Awards Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

#### Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of a defined contribution plans. The municipality is no longer contributing towards retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable.

### 1.7 Provisions and Contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.7 Provisions and Contingencies (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

### 1.8 Revenue

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

#### Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.9 Comparative Figures

Where materially necessary, comparative figures have been reclassified and restated to conform to changes in presentation in the current year.

### 1.10 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.10 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.13 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.14 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### 1.15 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.16 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.17 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. In determining the value of commitments, the Municipality may utilise savings among projects. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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2016

### 2. Property, plant and equipment

	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Machinery Equipment	16,593,151	(4,291,266)	12,301,885	16,484,317	(2,951,308)	13,533,009
Furniture and Office Equipment	4,518,908	(2,654,352)	1,864,556	3,895,211	(2,289,383)	1,605,828
Transport Assets	11,573,982	(3,656,291)	7,917,691	7,723,843	(2,455,246)	5,268,597
Computer Equipment	2,569,093	(1,584,649)	984,444	2,502,664	(1,526,594)	976,070
Solid Waste Disposal	294,856	(106,218)	188,638	311,044	(76,983)	234,061
Dwellings	942,676	(584,629)	358,047	942,676	(513,167)	429,509
Non Residential Dwellings	52,089,963	(19,964,733)	32,125,230	56,791,856	(19,229,830)	37,562,026
Roads	209,394,656	(67,767,360)	141,627,296	182,531,522	(51,223,443)	131,308,079
Assets under construction	121,791,234	-	121,791,234	112,296,559	-	112,296,559
<b>Total</b>	<b>419,768,519</b>	<b>(100,609,498)</b>	<b>319,159,021</b>	<b>383,479,692</b>	<b>(80,265,954)</b>	<b>303,213,738</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Machinery Equipment	13,533,009	197,053	(42,036)	35,000	(1,420,907)	(234)	-	12,301,885
Furniture and Office Equipment	1,605,828	731,129	(20,587)	-	(449,857)	(1,957)	-	1,864,556
Transport Assets	5,268,597	3,850,139	-	-	(1,205,629)	-	4,584	7,917,691
Computer Equipment	976,070	323,469	(11,821)	-	(303,274)	-	-	984,444
Solid Waste Disposal	234,061	-	(14,655)	-	(28,772)	(1,996)	-	188,638
Dwellings	429,509	-	-	-	(71,462)	-	-	358,047
Assets Under Construction	112,296,559	38,449,450	-	(28,954,775)	-	-	-	121,791,234
Non Residential Dwellings	37,562,026	-	(2,417,280)	112,600	(2,464,881)	(667,235)	-	32,125,230
Roads	131,308,079	38,300	(1,208,189)	28,807,175	(16,716,435)	(601,634)	-	141,627,296
	<b>303,213,738</b>	<b>43,589,540</b>	<b>(3,714,568)</b>	<b>-</b>	<b>(22,661,217)</b>	<b>(1,273,056)</b>	<b>4,584</b>	<b>319,159,021</b>
<b>Assets under construction comprises:</b>								
Non Residential Dwellings					Opening balance	Additions	Transfers	Closing balance
Roads					70,338,944	10,572,604	(112,600)	80,798,948
Machinery Equipment					41,957,616	27,841,846	(28,807,175)	40,992,287
					-	35,000	(35,000)	-
					<b>112,296,560</b>	<b>38,449,450</b>	<b>(28,954,775)</b>	<b>121,791,235</b>

#### Impairment of Assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Machinery Equipment	12,905,749	2,016,569	(15,383)	-	(1,361,604)	(12,322)	13,533,009
Furniture and Office Equipment	1,597,765	517,067	(60,807)	-	(443,436)	(4,761)	1,605,828
Transport Assets	4,735,500	1,479,110	-	-	(932,641)	(13,372)	5,268,597
Computer Equipment	817,811	473,638	(10,412)	-	(304,957)	(10)	976,070
Solid Waste Disposal	214,305	47,000	(1,026)	-	(26,218)	-	234,061
Dwellings	533,299	-	-	-	(103,790)	-	429,509
Assets Under construction	77,063,970	68,234,562	-	(33,001,973)	-	-	112,296,559
Non Residential Dwellings	39,334,213	178,750	-	914,006	(2,511,448)	(353,495)	37,562,026
Roads	115,061,273	617,000	(11,932)	32,087,967	(15,770,965)	(675,264)	131,308,079
	<b>252,263,885</b>	<b>73,563,696</b>	<b>(99,560)</b>	-	<b>(21,455,059)</b>	<b>(1,059,224)</b>	<b>303,213,738</b>

#### Impairment of assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

#### Expenditure incurred to repair and maintain property, plant and equipment

##### Included in Statement of Financial Performance

Repairs and Maintenance	4,998,750	8,478,260
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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2017 2016

### 3. Intangible Assets

	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,698,834	(578,920)	1,119,914	972,060	(387,463)	584,597

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation Disposals	Amortisation	Total
Computer software	584,597	742,278	(15,504)	15,152	(206,609)	1,119,914

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	455,710	274,084	(1,013)	(144,184)	584,597

### 4. Receivables from exchange transactions

Sundry debtors	314,525	63,889
Interest	29,165	22,812
Rei Management	2,379,003	2,379,003
Rei Management (Provision for Bad debts)	(2,379,003)	(2,379,003)
	<b>343,690</b>	<b>86,701</b>

### 5. VAT receivable

Value Added Tax	8,573,238	20,898,485
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The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.

### 6. Trade and other receivables from non exchange transactions

<b>Gross balances</b>		
Rates	12,004,142	9,068,647
<b>Less: Allowance for impairment</b>		
Rates	(2,705,006)	(2,256,215)
<b>Net balance</b>		
Rates	9,299,136	6,812,432
<b>Rates</b>		
>180 days	9,299,136	6,812,432

#### Summary of debtors by customer classification

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 6. Trade and other receivables from non exchange transactions (continued)

#### Residential

> 180 days	3,432,521	2,656,681
Less: Allowance for impairment	3,432,521	2,656,681
	(2,705,006)	(2,256,215)
	<b>727,515</b>	<b>400,466</b>

#### Industrial/ commercial

> 180 days	1,513,852	1,306,583
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#### National and provincial government

> 180 days	6,972,204	5,102,892
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#### Total

> 180 days	12,004,142	9,068,647
Less: Allowance for impairment	12,004,142	9,068,647
	(2,705,006)	(2,256,215)

#### Less: Allowance for impairment

> 365 days	(2,705,006)	(2,256,215)
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#### Reconciliation of allowance for impairment

Balance at beginning of the year	(2,256,215)	(1,736,980)
Contributions to allowance	(448,791)	(519,235)
	<b>(2,705,006)</b>	<b>(2,256,215)</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	1,318	779
Bank balances	159,652,376	113,275,555
Short-term deposits	9,563,696	9,563,957
	<b>169,217,390</b>	<b>122,840,291</b>

The short-term deposits and Bank balances are held with banks as indicated below.

#### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
ABSA BANK LTD - Port Shepstone - 40-7276-2850	158,887,601	112,559,348	158,887,601	112,553,324
ABSA Housing Account - Port Shepstone - 40-7278-0715	623,489	588,227	623,489	588,227
ABSA MIG Account - Port Shepstone 40 - 7277-6506	141,286	134,005	141,286	134,005
FNB - Money market account	3,880,010	3,880,271	3,880,010	3,880,271
FNB 32 day fixed deposit account	5,683,686	5,683,686	5,683,686	5,683,686
<b>Total</b>	<b>169,216,072</b>	<b>122,845,537</b>	<b>169,216,072</b>	<b>122,839,513</b>

### 8. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Project Consolidate	99,885	99,885
Low cost housing grant	603,670	568,408
GIS Grant	7,985	7,985
Municipal Infrastructure Grant	401,693	275,703
Disaster Management Grant	3,950,495	783,820
KZN Sports	349,014	524,774
National Electrification	-	1,149,655
Massification Grant	-	2,002,159
	<b>5,412,742</b>	<b>5,412,389</b>

#### Movement during the year

Balance at the beginning of the year	5,412,389	8,492,304
Additions during the year	57,577,262	74,460,550
Income recognition during the year	(57,576,909)	(77,540,465)
	<b>5,412,742</b>	<b>5,412,389</b>

See Note13 for reconciliation of grants from National/Provincial Government.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 9. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service cost	Finance Cost	Total
Provision for Bonus	864,931	964,076	(864,931)	-	-	-	964,076
Long Service Awards	751,000	-	(15,266)	(102,734)	151,000	82,000	866,000
Leave Pay	2,614,959	848,364	(572,786)	-	-	-	2,890,537
	<b>4,230,890</b>	<b>1,812,440</b>	<b>(1,452,983)</b>	<b>(102,734)</b>	<b>151,000</b>	<b>82,000</b>	<b>4,720,613</b>

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service Cost	Finance Cost	Total
Provision for Bonus	898,919	864,931	(898,919)	-	-	-	864,931
Long Service Awards	651,000	-	(8,706)	(90,294)	134,000	65,000	751,000
Leave Pay	2,329,138	806,995	(521,174)	-	-	-	2,614,959
	<b>3,879,057</b>	<b>1,671,926</b>	<b>(1,428,799)</b>	<b>(90,294)</b>	<b>134,000</b>	<b>65,000</b>	<b>4,230,890</b>
Non-current liabilities					796,000		735,000
Current liabilities					3,924,613		3,495,890
					<b>4,720,613</b>		<b>4,230,890</b>

#### Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2017 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2017 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

#### The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.43%	9.36%
CPI (Consumer Price Inflation)	6.93%	7.63%
Normal Salary Increase Rate	7.93%	8.63%
Net Effective Discount Rate	1.39%	0.67%

#### The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	949,000	829,000
Current Service Cost	170,000	171,000
Interest Cost	105,000	90,000
	<b>1,224,000</b>	<b>1,090,000</b>

#### The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	793,000	683,000
Current Service Cost	136,000	135,000
Interest Cost	87,000	74,000
	<b>1,016,000</b>	<b>892,000</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 10. Operating lease asset (liability)

Current assets	-	-
Current liabilities	(37,603)	(21,186)
	<b>(37,603)</b>	<b>(21,186)</b>

### Minimum Lease Payments due

Within one year	96,740	40,513
In second to fifth year inclusive	75,397	98,610
Over five years and until the end of the lease	405,747	418,361
	<b>577,884</b>	<b>557,484</b>

### 11. Trade and Other Payables

Trade payables	714,475	1,300,173
Other payables	359,188	387,501
Rental Deposits	20,000	20,000
Retention	13,032,787	14,117,766
	<b>14,126,450</b>	<b>15,825,440</b>

### 12. Property rates

#### Rates

Property Rates Billed	5,760,685	5,790,485
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# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 13. Government grants and subsidies

#### Grants

Equitable share	119,488,000	127,112,000
Municipal Systems Improvement Grant	-	930,000
Financial Management Grant	1,825,000	1,800,000
Disaster Management Grant	6,833,325	15,115,650
Municipal Infrastructure Grant	35,496,010	38,246,297
Expanded Public Works Program	1,083,000	1,084,000
Land Use Scheme	-	347,190
Intergrated National Electrification Programme	10,149,655	12,570,091
KZN Sports Grant	175,760	1,449,397
Massification Grant	2,002,159	5,997,841
	177,052,909	204,652,466

#### Project Consolidate

Balance unspent at beginning of year	99,885	99,885
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Conditions still to be met - remain liabilities (see note 8)

#### Municipal Systems Improvement Grant

Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-

#### Financial Management Grant

Current-year receipts	1,825,000	1,800,000
Conditions met - transferred to revenue	(1,825,000)	(1,800,000)
	-	-

#### Low Cost Housing Grant

Balance unspent at beginning of year	568,408	538,858
Current-year receipts	35,262	29,550
	603,670	568,408

Conditions still to be met - remain liabilities (see note 8)

#### GIS Grant

Balance unspent at beginning of year	7,985	7,985
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# Umzumbe Local Municipality

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### 13. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 8)

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	275,703	-
Current-year receipts	35,622,000	38,522,000
Conditions met - transferred to revenue	(35,496,010)	(38,246,297)
	<b>401,693</b>	<b>275,703</b>

Conditions still to be met - remain liabilities (see note 8)

#### Expanded Public Works Program

Current-year receipts	1,083,000	1,084,000
Conditions met - transferred to revenue	(1,083,000)	(1,084,000)
	-	-

#### Disaster Management Grant

Balance unspent at beginning of year	783,820	4,804,470
Current-year receipts	10,000,000	11,095,000
Conditions met - transferred to revenue	(6,833,325)	(15,115,650)
	<b>3,950,495</b>	<b>783,820</b>

Conditions still to be met - remain liabilities (see note 8)

#### KZN Sports

Balance unspent at beginning of year	524,774	1,974,171
Conditions met - transferred to revenue	(175,760)	(1,449,397)
	<b>349,014</b>	<b>524,774</b>

Conditions still to be met - remain liabilities (see note 8).

#### Scheme and Land Support Project

Balance unspent at beginning of year	-	347,190
Conditions met - transferred to revenue	-	(347,190)
	-	-

#### National Electrification Grant

Balance unspent at beginning of year	1,149,655	719,745
Current-year receipts	9,000,000	13,000,000
Conditions met - transferred to revenue	(10,149,655)	(12,570,090)
	<b>-</b>	<b>1,149,655</b>

#### Massification Grant

Balance unspent at beginning of year	2,002,159	-
Current-year receipts	-	8,000,000
Conditions met - transferred to revenue	(2,002,159)	(5,997,841)
	<b>-</b>	<b>2,002,159</b>

Conditions still to be met - remain liabilities (see note 8).

# Umzumbe Local Municipality

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### 14. Investment revenue

#### Interest revenue

Interest Received on Investments	11,451,089	8,269,793
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### 15. Other income

Tender Income	136,511	80,263
Sundry income	566,408	498,331
	<b>702,919</b>	<b>578,594</b>

### 16. General expenses

Advertising	648,463	568,354
Auditors remuneration	1,246,638	859,595
Bank charges	161,105	210,838
Bursaries	700,675	538,325
Community Participation	4,170,856	2,781,330
Conferences and seminars	304,928	461,265
Consulting and professional fees	1,637,079	1,269,077
Consumables	210,004	343,705
Electricity	232,015	170,546
Free basic services (Electricity)	12,835,974	19,353,342
Functions and refreshments	198,275	280,003
IDP & PMS Development	665,185	1,815,689
Initiative Support	395,146	1,334,313
Insurance	692,168	672,978
IT expenses	161,693	371,321
Lease Rentals on Operating Lease	204,540	498,440
LED Projects	695,134	637,244
Marketing	300,599	339,916
Motor vehicle expenses	2,040,907	1,123,228
Printing and stationery	679,046	604,239
Security (Guarding of municipal property)	1,419,197	1,052,530
Social Programmes	4,053,377	4,352,568
Solid Waste	403,068	312,998
Special Programmes	6,116,385	9,320,655
Subsistence and Travel	2,399,290	1,708,094
Telephone and fax	1,118,869	1,367,436
Training	580,223	443,809
Tourism Development	2,824,806	1,456,646
Ward Committees	2,287,146	1,668,288
Uniforms	297,351	507,997
Other expenses	4,401,630	4,047,141
	<b>54,081,772</b>	<b>60,471,910</b>

# Umzumbe Local Municipality

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### 17. Employee related costs

Basic Salary	25,241,032	23,508,551
Bonus	2,203,894	1,523,821
Medical aid - company contributions	1,250,717	1,185,420
Unemployment Insurance Fund	181,054	170,958
Skills Development Levy	335,377	309,162
Leave pay provision charge	848,364	806,995
Pension Contribution	2,829,699	2,623,552
Travel, motor car, accommodation, subsistence and other allowances	5,061,111	4,764,235
Overtime payments	781,986	559,272
Acting allowances	143,199	173,354
Other Salary costs	577,894	801,728
	<b>39,454,327</b>	<b>36,427,048</b>

### Remuneration of Municipal Manager

Annual Remuneration	902,045	822,616
Car Allowance	304,440	274,205
Performance Bonus	170,486	-
Other	24,692	41,463
	<b>1,401,663</b>	<b>1,138,284</b>

### Remuneration of Chief Financial Officer

Annual Remuneration	783,638	714,635
Car Allowance	264,478	238,211
Performance Bonuses	148,108	-
Other	36,378	37,673
	<b>1,232,602</b>	<b>990,519</b>

### Remuneration Corporate Services Director

Annual Remuneration	736,746	666,433
Car Allowance	248,652	222,144
Performance Bonuses	139,245	-
Other	44,574	73,973
	<b>1,169,217</b>	<b>962,550</b>

### Remuneration of Technical Services Director

Annual Remuneration	-	171,650
Car Allowance	-	57,216
Leave Payout	-	80,195
Other	-	2,976
	<b>-</b>	<b>312,037</b>

The Director for Technical Services position was vacant in 2016-17 financial year

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### 17. Employee related costs (continued)

#### Remuneration of Social & Community Services Director

The position of the Social & Community Services Director was vacant during the year.

### 18. Remuneration of councillors

Mayor	780,127	775,097
Deputy Mayor	668,856	641,099
Speaker	642,275	640,098
Councillors	11,816,777	11,632,585
	<b>13,908,035</b>	<b>13,688,879</b>

### 19. Debt impairment

Contributions to debt impairment provision	448,791	519,236
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### 20. Depreciation, amortisation and Impairment

Property, plant and equipment	23,929,689	22,514,284
Intangible assets	206,609	144,184
	<b>24,136,298</b>	<b>22,658,468</b>

### 21. Auditors' remuneration

Fees	1,246,638	859,595
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### 22. Cash generated from operations

Surplus	54,468,642	76,881,964
<b>Adjustments for:</b>		
Depreciation and amortisation	24,136,298	22,658,468
Loss on sale of assets	3,388,987	100,573
Debt impairment	448,791	519,236
Movement in operating lease accrual	16,417	3,617
Movements in provisions	489,723	351,833
Other non-cash items	-	971,931
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(256,989)	2,619
Trade and other receivables from non exchange transactions	(2,935,494)	(2,846,006)
Trade and Other Payables	(1,698,993)	4,114,236
VAT	12,325,247	(13,413,798)
Unspent Conditional Grants and Receipts	353	(3,079,915)
	<b>90,382,982</b>	<b>86,264,758</b>

# Umzumbe Local Municipality

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### 23. Commitments

#### Authorised capital expenditure

##### Approved and contracted for:

• Infrastructure	39,883,822	48,259,305
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##### Approved but not yet contracted for:

• Infrastructure	62,365,358	62,841,553
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#### Total capital commitments

Already contracted for but not provided for	39,883,822	48,259,305
Not yet contracted for and authorised by accounting officer	62,365,358	62,841,553
	<b>102,249,180</b>	<b>111,100,858</b>

This committed expenditure relates to Infrastructure and will be financed by Government Grants.

### 24. Unauthorised expenditure

Opening balance	2,379,003	2,379,003
Less: Amounts written off	-	-
	<b>2,379,003</b>	<b>2,379,003</b>

### 25. Fruitless and wasteful expenditure

Current year expenditure	58,570	15,314
Less: Amounts written off	(58,570)	(15,314)
	-	-

#### Incidents

- The municipality incurred fruitless and wasteful expenditure of R 58 569.90 due to interest and penalties arising from late payments and late submission of mandatory reports..

# Umzumbe Local Municipality

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### 26. Irregular expenditure

Add: Irregular Expenditure - current year	-	1,627,776
Less: Amounts written off (Condoned)	-	(1,627,776)
	-	-

#### Details of irregular expenditure - current year (2016)

Incident	Action	
The municipality incurred irregular expenditure as a result of a service provider submitting a fraudulent tax clearance certificate	The expenditure was tabled to council for condonment.	1,627,776
		<b>1,627,776</b>

# Umzumbe Local Municipality

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### 27. Effects of correction of prior year errors on financial statements

An amount of R 200 582 was adjusted for prior year salary related liabilities.

Assets not capitalised in the previous financial year resulted in an increase of R1 046 860 in Accumulated depreciation.

An amount of R771 349 relates to correction of prior year creditors balances.

An amount of R2 492 relates to correction of prior year debtors balances.

#### Statement of Financial Position

	Note	As previously reported	Correction of errors	Reclassification	Total
Receivables from exchange transactions	4	86,701	-	-	86,701
VAT Receivable	5	20,898,485	-	-	20,898,485
Trade and Other Receivables from Non Exchange Transactions	6	6,809,940	2,492	-	6,812,432
Cash and Cash Equivalents	7	122,840,291	-	-	122,840,291
Property , Plant and Equipment	2	304,260,598	(1,046,860)	-	303,213,738
Intangible Assets	3	584,597	-	-	584,597
<b>Total Assets</b>	-	<b>455,480,612</b>	<b>(1,044,368)</b>	-	<b>454,436,244</b>
Operating Lease Liability	10	(21,186)	-	-	(21,186)
Trade and Other Payables	11	(16,797,371)	971,931	-	(15,825,440)
Unspent Conditional Grants and Receipts	8	(5,412,389)	-	-	(5,412,389)
Current : Provisions	9	(3,495,890)	-	-	(3,495,890)
Non Current Provisions	9	(735,000)	-	-	(735,000)
Accumulated Surplus	-	(429,018,776)	72,437	-	(428,946,339)
<b>Total</b>	-	<b>455,480,612</b>	<b>-</b>	-	<b>454,436,244</b>

#### Statement of financial performance

	Note	As previously reported	Correction of errors	Reclassification	Total
Other Income	15	578,594	-	-	578,594
Interest Received - Investment	-	8,269,793	-	-	8,269,793
Property Rates	12	5,787,993	2,492	-	5,790,485
Government Grants & Subsidies	13	204,652,466	-	-	204,652,466
<b>Total Revenue</b>	-	<b>219,288,846</b>	<b>2,492</b>	-	<b>219,291,338</b>
Employee Related Costs	17	(36,427,048)	-	-	(36,427,048)

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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Remuneration of Councillors	18	(13,688,879)	-	-	(13,688,879)
Depreciation Amortisation and Impairment	20	(21,611,607)	(1,046,861)	-	(22,658,468)
Finance Cost	-	(65,000)	-	-	(65,000)
Debt Impairment	19	(519,236)	-	-	(519,236)
Repairs and Maintenance	-	(8,478,260)	-	-	(8,478,260)
General Expenses	16	(60,471,910)	-	-	(60,471,910)
Loss on Disposal of Assets	-	(100,573)	-	-	(100,573)
<b>Surplus for the year</b>	<b>-</b>	<b>77,926,333</b>	<b>(1,044,369)</b>	<b>-</b>	<b>76,881,964</b>

### Cashflow Statement

	Note	As previously reported	Correction of errors	Total
Government Grants and subsidies	-	201,572,550	-	201,572,550
Cash Receipts from Customers	-	3,635,007	-	3,635,007
Interest Income	-	8,269,793	-	8,269,793
Finance Costs	-	(65,000)	-	(65,000)
Cash Paid to Suppliers and Employees	-	(127,147,592)	-	(127,147,592)
Purchase of Property, Plant and Equipment	2	(73,563,696)	-	(73,563,696)
Purchase of intangible assets	3	(274,084)	-	(274,084)
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>12,426,978</b>	<b>-</b>	<b>12,426,978</b>

### 28. Contingencies

Contingent Liabilities

Incidents.

The municipality has not completed any employee job evaluations as prescribed in terms of the Salary and wage collective agreement between SALGA, IMATU and SAMWU - 27 July 2012. As a result the municipality is unable to measure, with sufficient reliability, the amount of such obligation for both the 30 June 2017 and 30 June 2016 year-ends.

There is a pending court case between the municipality and PV Conco and Others regarding a municipal property which was built on private land. The estimated legal cost relating to the matter is R35 000.00

Some employees referred a dispute between themselves and the municipality to the labour court which related to their salaries. The estimated legal cost amount to R30 000.00

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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### 29. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

#### Financial instrument

Trade and other receivables from non exchange transactions (Rates)	9,299,136	6,812,432
Cash and Cash Equivalents	169,217,390	122,840,291

### 30. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 31. Additional disclosure in terms of Municipal Finance Management Act

#### Contribution to Local Government Associations

Current year subscription	500,000	500,000
Amount paid	(500,000)	(500,000)
	-	-

#### Audit fees

Current year fee	1,246,638	859,595
Amount paid - current year	(1,246,638)	(859,595)
	-	-

#### PAYE and UIF

Current year deductions	8,526,650	8,257,555
Amount paid	(8,526,650)	(8,257,555)
	-	-

#### Pension and Medical Aid Deductions

Current year	4,063,740	6,248,989
Amount paid	(4,063,740)	(6,248,989)
	-	-

# Umzumbe Local Municipality

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### 32. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

### DEFINED CONTRIBUTION SCHEMES

#### Municipal Councillors Pension Fund:

The scheme is subject to an actuarial valuation. The last statutory valuation was performed as at 30 June 2015.

The valuation performed revealed that at the valuation date, the fair value of the Fund's adjusted net assets amounted to R 2 551.9 million.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2015, in that the assets of the Fund were sufficient to cover the accrued service liabilities including the recommended contingency reserves in full.

### 33. Related Party Transactions

#### Section 45 and 44 of SCM Regulations

##### Purchases from related parties

Odaleka Maintenance and Projects	-	6,000
Smakuhle General Trading	15,750	40,750

Odaleka Maintenance and Projects - The company is owned by the spouse of an employee (Manager Internal Audit) of Umzumbe Municipality.

Smakuhle General Trading - The company is owned by the sister of an employee (Municipal Driver) of Umzumbe Municipality.

# **Umzumbe Local Municipality**

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### **34. Section 36 deviations**

During the year the Accounting Officer approved minor breaches in terms of section 36 (1) (b) amounting to R 2 295 202.72 (2016 - R1 864 020.87)